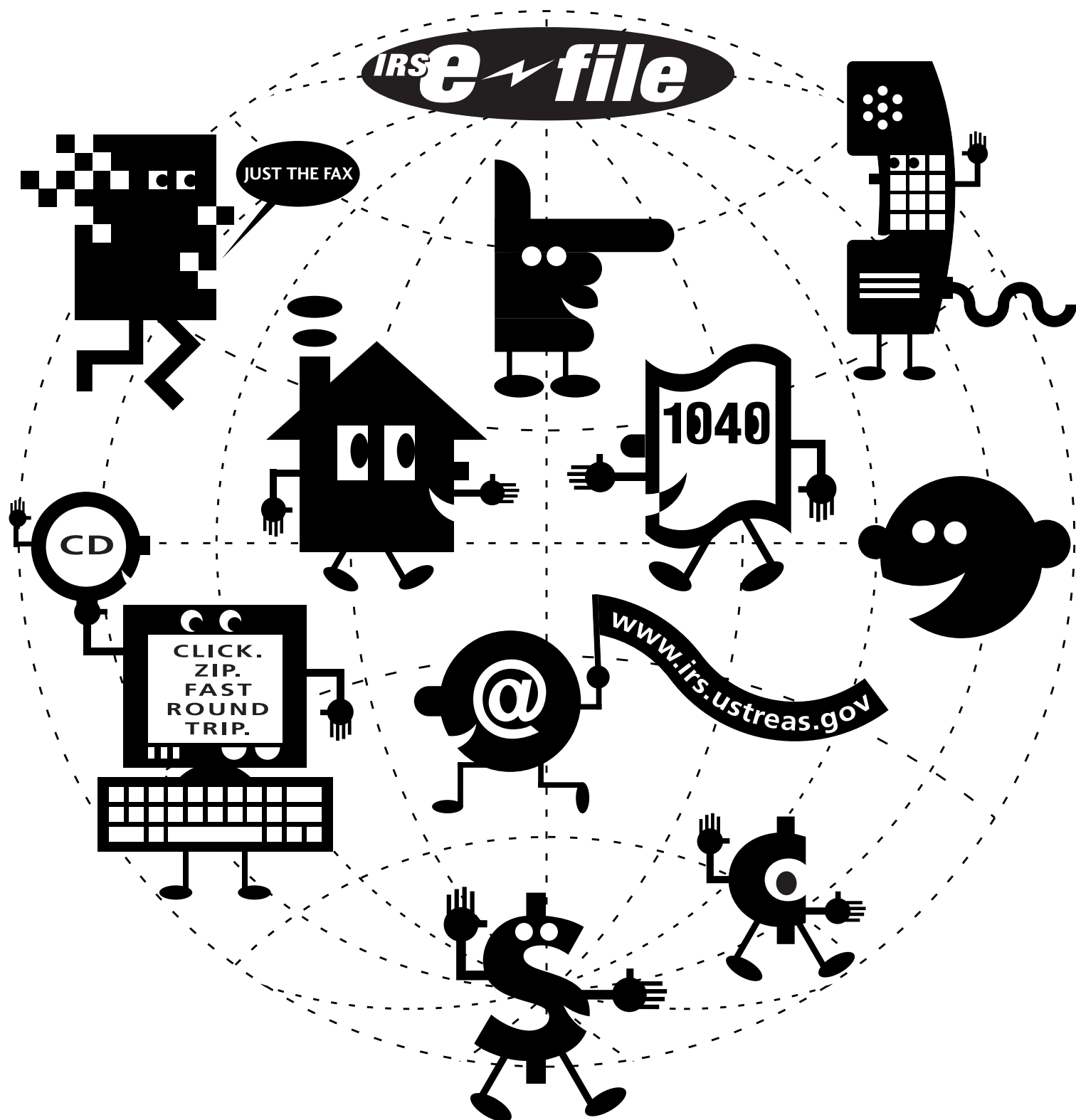


TAX SUPPLEMENT 1998



1997 Tax Changes Affect Almost Every Taxpayer

As tax season rolls around, the Internal Revenue Service wants to remind people about tax law changes that could affect their 1997 tax returns. Some are new, and some are tax laws Congress enacted a year ago that are just now taking effect. Here's a quick look at those that could change the bottom line of most people's tax returns.

For 1997, personal exemptions are worth \$2,650. People who don't itemize deductions get an increased standard deduction of \$4,150 for singles, \$6,900 for married couples filing joint returns or qualifying widow(er)s, \$6,050 for heads of households and \$3,450 for married couples filing separate returns.

The earned income tax credit (EITC) is now as much as \$3,656 for people with more than one qualifying child. For those with one qualifying child, it's as much as \$2,210. And it's up to \$332 for those with no children. The amount people can earn and still be eligible for the credit increases to \$29,290 for those with more than one qualifying child, \$25,760 for those with one child, and \$9,770 for those with no children. And for people thinking about filing for the EITC when they know they aren't eligible—beware! False EITC claims could bar people from the credit for up to ten years.

Selling a home? The once-in-a-lifetime exclusion of \$125,000 of gain for people age 55 or older and the rollover of sales proceeds into a new home were replaced during 1997. People of any age can now exclude up to \$250,000 of gain (\$500,000 for married couples filing a joint return) they get on the sale of their home after May 6, 1997. They must live in the home for at least two of the five years before the sale. Every two years, they can do it again.

Also for 1997, people who received accelerated death benefits under a life insurance contract because they were terminally or chronically ill can exclude those payments from their income. Formerly, the law excluded only life insurance payments made on account of the

death of the insured. This exclusion also applies to amounts received from death benefits sold or assigned to a viatical settlement provider.

Amounts people get from qualified long-term care insurance contracts can usually be excluded from income as well. And insurance premiums are deductible as a medical expense up to certain limits, which depend on the taxpayer's age.

Some people can contribute to medical savings accounts. They can use the money tax free to pay medical expenses that their high-deductible health insurance doesn't cover or reimburse. Also, the 10-percent early withdrawal penalty on individual retirement arrangements won't apply to amounts used to pay for unreimbursed medical expenses that are more than 7 1/2 percent of adjusted gross income.

Keep in mind that with each of these medical changes, some limits, exceptions or eligibility requirements may apply.

Adopting a U.S. citizen or resident child? For 1997, a person may be able to claim a tax credit for qualifying adoption expenses. It can be as much as \$5,000 for each child, or \$6,000 for a child with special needs. The credit reduces tax liability. Or if an employer has an adoption assistance program and pays part of the qualifying expenses, the employee can exclude up to the same amount from gross income.

The health insurance deduction for self-employed persons rose to 40 percent in 1997, and increases to 45 percent for 1998. A revised Schedule D will take taxpayers step-by-step through the new, lower tax rates on capital gains.

What should businesses look for in 1997 changes? They can deduct the costs of adoption assistance programs they provide for their employees and deduct contributions to employees' medical savings accounts. Of course, certain limits or other requirements may apply.

Businesses with group health plans are subject to an excise tax if their plans do not meet the new accessibility, portability and renewability requirements. The tax is \$100 a day for each beneficiary during the time in which the plan does not meet the requirements. These requirements limit the circumstances under

which plans can deny coverage for pre-existing conditions, bar group health plans from using people's health status to exclude them from coverage, and guarantee continued health coverage to an employer under a multi-employer plan. The tax is effective for plan years beginning after June 30, 1997, and some exceptions apply.

The maximum amount of 1997 wages subject to the Social Security tax was \$65,400. There is no limit to the amount of wages subject to the Medicare tax. The total cost of Section 179 property that businesses can deduct increased to \$18,000 for 1997. And the exclusion for employer-provided educational assistance—which applies only to undergraduate-level study—was extended from June 1997 through May 2000.

Businesses that were to begin making tax deposits electronically after June 1997 now have until July 1998 to do so. But they shouldn't wait until the last minute to enroll in the Electronic Federal Tax Payment System (EFTPS). The enrollment process normally takes several weeks. Once businesses sign up, they don't have to make trips to their financial institutions to deposit their FTD coupons and checks. To use EFTPS, all it takes is a telephone call or a personal computer—push a few buttons, and it's done.

Here's one last reminder for all taxpayers. People who owe should pay their taxes in full to avoid penalty and interest charges. But those who can't afford to pay all at once should at least file their returns on time, and either attach an installment payment request—Form 9465 may be used—or contact the IRS to discuss payment options or offers to settle their tax accounts for less than the amount owed.

Want more information on tax changes? Call 1-800-829-3676 and get Publication 553, *Highlights of 1997 Tax Changes*. For online tax information, forms and publications, check out the IRS on the Internet at www.irs.ustreas.gov. Got a fax machine, but not a computer? Dial 1-703-368-9694 from the fax machine to request the most commonly used forms, many of the instruction sheets and the TeleTax topics. Details on using this TaxFax service are in the tax instruction booklets.

New Maximum Rates for Capital Gains

The Internal Revenue Service has revised Form 1040's Schedule D, used to report capital gains and losses, to reflect changes made by the Taxpayer Relief Act of 1997.

The law generally cuts the top tax rates for net capital gain for transactions—including installment payments received—after May 6, 1997, on property held more than one year. For transactions after July 28, 1997, the first two rates apply only to property held more than 18 months. The rates are:

- 20 percent for most gains, but 10 percent for gains that would otherwise be in the 15 percent tax bracket;
- 25 percent on unrecaptured Section 1250 gain, which results from the depreciation of real estate; and
- 28 percent, for gains on collectibles and for gains after July 28, 1997, on property held more than one year but not more than 18 months.

"We've distilled an extensive set of capital gains rules into a form that takes taxpayers line-by-line through the computations," the IRS says. "While this results in a longer form, it's one that works for the taxpayer."

The new Schedule D for individual returns incorporates a 13-line maximum capital gains tax worksheet that had been in the instruction book and expands it to account for the various rates established by the new tax law. The extra lines for listing transactions, which had filled page two of Schedule D, will be on a separate Schedule D-1, as they were prior to 1993. The IRS has also revised the capital gains schedules for S corporations, partnerships, and estates and trusts, to accommodate tax law changes.

For more information on capital gains, get Publication 550, *Investment Income and Expenses*. It's available through the IRS Web site at www.irs.ustreas.gov, or by phone at 1-800-829-3676.

New Tax Benefits for Education

Learning can pay off when it comes to paying taxes. The Taxpayer Relief Act provides new tax benefits for qualified education expenses, but only for amounts paid after 1997.

The Hope Scholarship credit will let people claim a credit up to \$1,500 a year for a qualified student's first two years of post-secondary education expenses. This amount is based on 100 percent of the first \$1,000 of tuition and fees (not books) and 50 percent of the next \$1,000.

People can claim the credit for each eligible student in their family. The student must be enrolled at least half-time for one academic period during the year for the expenses to qualify. The credit is denied for any academic period the student is convicted of felony drug possession or distribution.

The credit is phased out for incomes of \$40,000 to \$50,000 (for married couples filing a joint return, \$80,000 to \$100,000).

Available after June 1998, the Lifetime Learning credit lets people claim 20 percent of the first \$5,000 of post-secondary education expenses each year. The education includes graduate courses and any training to get or improve job skills.

Unlike the Hope Scholarship credit, people can claim the Lifetime Learning credit for an unlimited number of years. However, the amount of this credit doesn't increase with additional eligible students in the family. It is phased out at the same income levels as the Hope

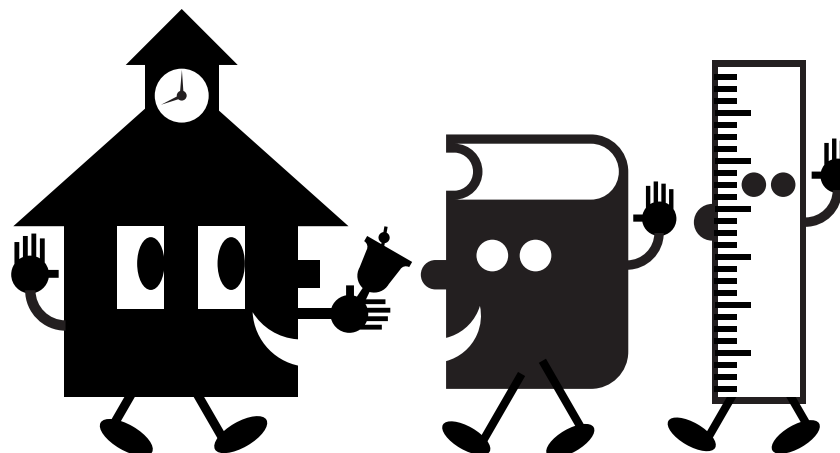
Scholarship credit, and cannot be claimed for students' expenses during periods when the Hope Scholarship credit is claimed for those students.

Dependents and married persons filing separate returns can't claim either credit. Both credits might be claimed in one tax year, but not for expenses related to the same person. For example, qualifying parents might claim the Lifetime Learning credit for their own educational expenses and the Hope Scholarship credit for their child's second year in college.

In addition to these new credits, people will be able to deduct interest paid after 1997 on higher education loans. The maximum deduction is \$1,000 in 1998, increasing \$500 a year until it reaches \$2,500 in 2001. People can take the deduction for interest paid on education loans for themselves, their spouse or dependents, but only for the first 60 months of loan payments.

The education loan interest deduction is phased out for incomes of \$40,000 to \$55,000 (for married couples filing jointly, \$60,000 to \$75,000). Dependents and married couples filing separate returns can't take the deduction.

To find out more about these educational tax benefits, call 1-800-829-3676 and ask for Publication 553, *Highlights of 1997 Tax Changes*. Information is also available on the Internet at www.irs.ustreas.gov.



Tax Credit for Some Workers

The earned income tax credit (EITC) can add to the income of some workers. Here's how.

The EITC reduces the tax some workers owe and may give them refunds even if they don't owe any tax. It could be worth a few dollars or as much as \$3,656.

Even people who have never filed a tax return before, and who don't earn enough income to file one this year, could get the credit. "For those who qualify," the IRS says, "all it takes is a tax return to get their EITC refund."

The credit is based on income and the number of qualifying children the workers have living with them in the United States for more than half the year, or for the whole year if they have foster children. Workers who do not have a qualifying child may also get a credit of up to \$332.

Those who are in the U.S. military on extended active duty outside the United States are considered to live in the United States during that duty period and may be able to get the EITC as long as they meet all the other rules. However, workers who are nonresident aliens for any part of the year cannot claim the credit unless they are married to a U.S. citizen or resident and choose to be treated as a resident alien for the entire year.

All workers must have earned income from wages or self-employment. Their income must be less than \$29,290 if they had two or more qualifying children, less than \$25,760 if they had only one qualifying child. A worker without a qualifying child must earn less than \$9,770, be at least age 25 and under 65, not be eligible to be a dependent and must have a main home in the United States for more than half the year. No one with more than \$2,250 in investment income, such as interest or dividends, may claim the EITC.

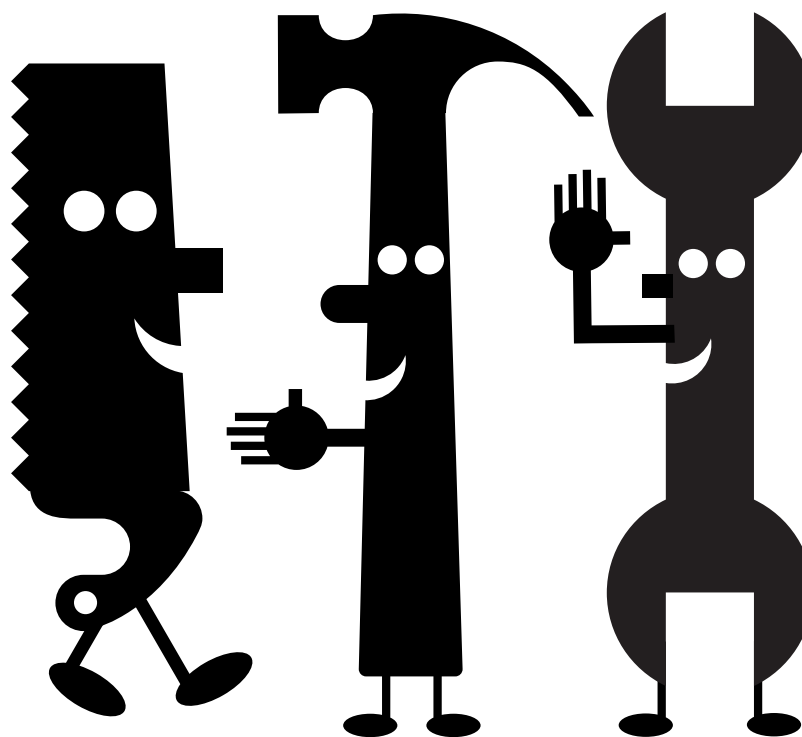
"Working families may be able to get extra money in their pockets now," the IRS says. Those who will earn less than the 1998 income limits and have at least one qualifying child may get part of their EITC added to their paychecks. Details

are on Form W-5, "Earned Income Credit Advance Payment Certificate," which they must give to their employers. Based on the employee's earnings, the employer adds a certain amount of money, which is actually part of the EITC, to the employee's pay.

This advance EITC option gives a worker some additional money throughout the year, rather than getting it all in a lump sum after filing the tax return. "However," the IRS says, "people who get the advance EITC payments, and later find out

Taxpayer Relief Act of 1997. The Act also prevents people who recklessly or intentionally disregard EITC rules and regulations from getting the credit for two years. People who are denied the credit as a result of deficiency procedures can't get it at all unless they provide evidence of eligibility to claim the credit in future years. And paid preparers who fail to use due diligence on EITC returns may have to pay a \$100 penalty per return.

Beginning in 1998, the Act modifies the adjusted gross income



they no longer qualify, will have to pay back any advance payments when they file their tax returns." These workers must give their employers a new Form W-5 to stop the payments once they realize they no longer qualify.

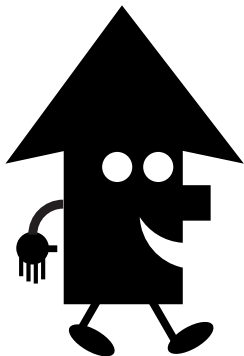
Workers should be careful to use the correct Social Security numbers when filling out tax forms and schedules. "If they don't," the IRS says, "their tax returns and any refunds due may be delayed while their return is being corrected."

And anyone who fraudulently claims the EITC won't get it for the next ten years. This is a result of the

(AGI) used to phase out the EITC. People will add to their AGI tax-exempt interest, nontaxable distributions from pensions and IRAs, and 75 percent of net losses from businesses (up from 50 percent).

For more information on the EITC, call the IRS at 1-800-829-3676 and ask for Publication 596, *Earned Income Credit*, or 596SP, *Crédito por Ingreso del Trabajo*, in Spanish.

Higher Deduction for Some



Starting in 1998, the Taxpayer Relief Act raises the standard deduction for people who can be claimed as a dependent by another. For 1997, this amount was the greater of \$650 or the person's earned income, but not over \$4,150. For future years, it will be the greater of \$650 (adjusted for inflation) or the person's earned income plus \$250, up to the regular standard deduction for a single person. This change will relieve many working dependents with under \$250 of investment income of the need to file a tax return or to have any tax withheld from their pay.

Withholding Option for Some Payments

People getting certain government payments can opt to have federal income tax withheld from them. These payments include unemployment compensation, tier 1 railroad retirement benefits, Commodity Credit Corporation loans or certain crop disaster payments.

"Since federal income tax doesn't have to be withheld from these payments, this request is voluntary," the IRS says. "However, the choice may eliminate the need for some people to file quarterly estimated tax payments."

Just fill out Form W-4V, "Voluntary Withholding Request." Give one form to each payer from which you receive these types of payments. Call 1-800-829-3676 to get the form.

Check Returns for Common Errors

A surefire way to slow a tax refund or to get a notice from the Internal Revenue Service is to be careless when filling out a tax return. It's worth taking a few extra minutes to look over the return before sending it on its way.

Mistakes on an income tax return can slow processing while the IRS makes corrections or writes to ask for missing items. People expecting refunds will have to wait until the mistakes get ironed out. And many of the more common errors could easily be eliminated if people took the time to double check their returns.

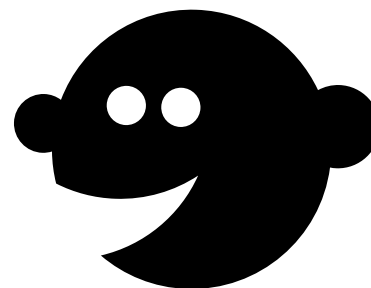
People should look at each line to be sure that the right information is on the right line. Go over the math to avoid mistakes in figuring total income, taxable income, balance due or refund amounts. Correctly write names and Social Security numbers on each form and schedule. Also check the address. Make changes directly on the label.

Many people make the mistake of using a tax amount from the wrong column in the tax table, or they forget to sign and date the return. On a joint return both husband and wife must sign and date it.

For those rushing to meet the tax deadline on April 15 at midnight, put the correct postage on the envelope before dropping it in the mail.

One last reminder. People can file electronically from a personal computer or through a tax professional. The error rate of electronic returns is less than 1 percent. This means people who use an electronic filing option are much less likely to get a notice from the IRS because of mistakes typically associated with paper filing. IRS computers automatically check for errors or missing information before accepting electronic returns. And the IRS sends an acknowledgement when it accepts the return.

So when it comes to *your* tax return, check it out, then send it on.



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Tax Relief After Disasters

The last thing people think of after a disaster is taxes. But the IRS says some losses can be recouped through federal income tax breaks.

Losing personal or business property due to a fire, flood, hurricane, theft or other similar event is devastating. People who suffer a casualty, loss or theft may be able to deduct the loss when they itemize deductions on their tax returns.

If the loss happens in an area declared a disaster area by the president, people can choose to deduct the loss when they file their tax

returns for the year of the loss, or amend their returns for the year before the loss, whichever provides the best tax result. And effective in 1997, the Taxpayer Relief Act granted the IRS authority to postpone tax-related deadlines for up to 90 days in presidentially-declared disaster areas.

Find out the details in free Publications 547, *Casualties, Disasters, and Thefts (Business and Nonbusiness)*, and 1600 (1600SP in Spanish), *Disaster Losses*. Call 1-800-829-3676.

New Estimated Tax Threshold for 1998

While most people pay their federal income taxes through payroll withholding, others must make estimated tax payments throughout the year. The Taxpayer Relief Act of 1997 raised the individual estimated tax threshold from \$500 to \$1,000, beginning with the 1998 tax year. This means that those who expect to owe less than \$1,000—after taking into account withholding and tax credits—will no longer have to make estimated payments.

\$1000
\$500

Estimated tax is the way to pay tax on income that is not covered by withholding, such as self-employment income, interest, dividends, alimony, rents and awards. Generally, if the income tax withheld from wages, pensions or other income is less than 90 percent of the total tax due, and the balance due is \$1,000 or more, then people should make estimated tax payments.

Form 1040-ES, "Estimated Tax for Individuals," includes a worksheet to help figure the amounts, along with vouchers to accompany each payment.

The first estimated tax payment is due April 15. People can pay the whole year's estimated tax at that time or pay in four installments throughout the year. The other installment due dates are June 15, September 15, and January 15 of the next year.

More information about estimated tax is in Publication 505, *Tax Withholding and Estimated Tax*. Call 1-800-829-3676 to order Form 1040-ES and the publication. Or get them from the IRS Web site at www.irs.ustreas.gov.

Tax Relief for Farmers

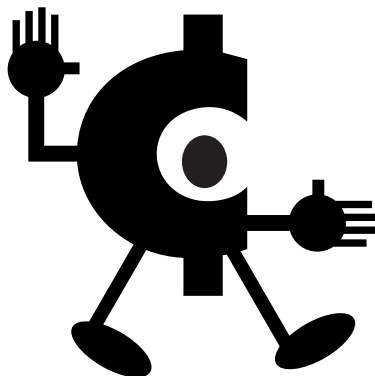
New law will provide relief to some farmers when they fill out their tax returns this year.

The Taxpayer Relief Act extends to farmers affected by floods and other weather-related conditions the benefits of two existing tax law provisions that applied only in cases of drought.

One provision allows cash method farmers to defer income from livestock sales to the next taxable year, to the extent that the sales would not have occurred but for the weather-related conditions that caused the area to be designated as eligible for federal assistance. The other treats certain livestock sales due to weather-related conditions as involuntary conversions. Both provisions are effective in 1997.

The Act also allows cash-basis farmers to figure their alternative minimum tax using the installment method of accounting for sales involving the receipt of some proceeds in the following year, retroactive to 1987.

Another provision of the new law will allow individuals to figure their tax by averaging, over the prior three-year period, all or part of their taxable income from farming. However, this averaging will not be available for estates or trusts. The three-year income averaging applies to taxable years beginning after 1997 and before 2001.



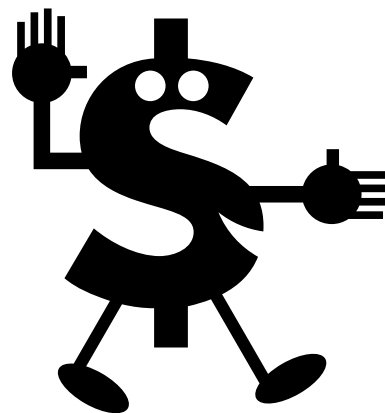
Estate Planning and Taxes

Tax-free amounts will rise when it comes to estate and gift taxes. Here are some new tax provisions to keep in mind.

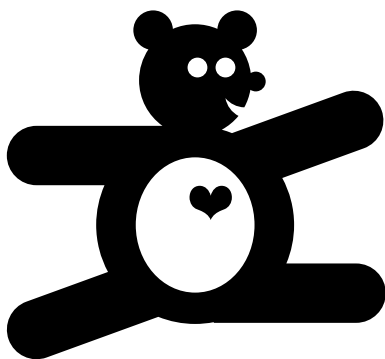
Starting in 1998, the estate tax exclusion will increase to \$625,000, up from \$600,000. It will step up to \$650,000 in 1999, and keep on climbing until it tops off at \$1 million in 2006. Each amount is the maximum value of an estate that's tax free for that year.

Special estate tax treatment applies to qualified family-owned businesses—that is, any interest in a U.S. trade or business if it is owned at least 50 percent by one family, 70 percent by two families, or 90 percent by three families, as long as the decedent's family owns at least 30 percent of it. For 1998, the new provision excludes up to \$675,000 of value in qualified family-owned business interests from a decedent's taxable estate. This exclusion amount will decrease in future years as the value of the regular estate tax exclusion increases, so that the total value of both will be limited to \$1.3 million.

Other provisions kick in for 1999 tax planning. Inflation adjustments will be made for the \$10,000 annual gift tax exclusion, the \$750,000 ceiling for the alternate valuation of farmland, the \$1 million generation-skipping transfer tax exemption, and the \$1 million eligible for the low interest rate for extended payments on a closely held business.



Child Tax Credit for '98



The Taxpayer Relief Act of 1997 creates a new credit for people with children. Although not available for 1997 tax returns, some people can count on a child tax credit of \$400 in 1998 (\$500 in following years) for each of their qualifying children under age 17. This credit is reduced by \$50 for every \$1,000 of adjusted gross income above certain thresholds. To get the credit, the name and Social Security number of each qualifying child must be on the tax return.

News for Employers

Every quarter, employers get a newsletter from the Social Security Administration and the Internal Revenue Service in their Form 941 employment tax package. This newsletter, the *SSA/IRS Reporter*, contains the latest information they need to know about Social Security and employment tax issues that affect them. Look for it in the mail with the next Form 941.

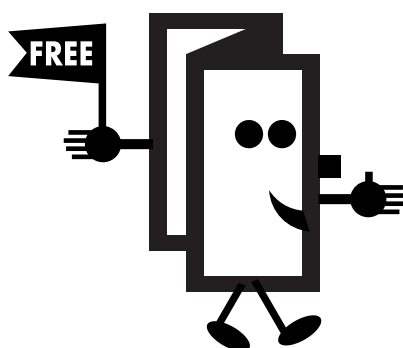
Label and Envelope— a Good Idea

Want to shorten the time it takes to process a tax return? How about reducing the chance of misrouted mail or refunds because of hard-to-read handwriting? When mailing a federal tax return, use the peel-off label and envelope that comes inside the tax booklet. It's a good idea.

Free Tax Guides

The IRS has free publications to help people fill out their tax returns. Call 1-800-829-3676 to get any of the following publications, or check them out on the Internet at www.irs.ustreas.gov.

- Publication 17, *Your Federal Income Tax (For Individuals)*
- Publication 225, *Farmer's Tax Guide*
- Publication 334, *Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)*
- Publication 595, *Tax Highlights for Commercial Fishermen*



Report Those Tips

Restaurant workers, baggage carriers and others who get tips of \$20 or more a month while working for one employer must report the tips to the employer. Employers must withhold federal income, Social Security and Medicare taxes on those tips. Then employers report the withholding to the IRS. For a brief overview, call 1-800-829-3676 and ask for *Tips on Tips* (Publication 1872 for employees or 1875 for employers). Or to get all the details, ask for Publication 15, *Circular E, Employer's Tax Guide*.

Boating Biz

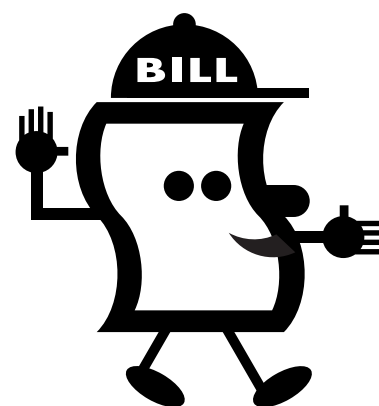
People who use diesel fuel in a recreational motorboat, take note: the Taxpayer Relief Act of 1997 repealed the diesel fuel tax on such uses, effective January 1, 1998.

Taxpayer Bill of Rights

In 1996, a second Taxpayer Bill of Rights increased the protection of taxpayer rights in complying with the tax laws and in dealing with the IRS. It also established the Office of the Taxpayer Advocate, which has broader authority to take any action permitted by law to help taxpayers who would otherwise suffer a significant hardship due to the way the IRS is administering the tax laws.

In any dealing with the IRS, people are entitled to fair treatment by IRS employees, privacy, representation and the right to appeal an IRS examiner's findings. If their problems are not solved through normal IRS channels, people can get special help through the Problem Resolution Program. Want more information? Call 1-800-829-3676 for Publication 1, *Your Rights as a Taxpayer* (or Spanish-language Publication 1SP, *Derechos del Contribuyente*).

Another taxpayer right has been strengthened as a result of the Taxpayer Browsing Protection Act. People have the right to confidentiality of their tax information. It is now a misdemeanor for employees and contractors of federal and state governments to willfully inspect another person's tax records without authorization. The IRS will notify any taxpayer whose records were illegally inspected when a person is criminally charged for the browsing.



Valid Tax ID Numbers a Must

The Internal Revenue Service says it can't process tax returns and refund claims without valid identification numbers. This means Social Security numbers (SSNs) for individuals, employer identification numbers (EINs) for employers and sole proprietors, and individual taxpayer identification numbers (ITINs) for those who aren't eligible to get SSNs.

New for 1997, people in the process of a domestic adoption may need an adoption taxpayer identification number (ATIN) for the child. The ATIN will be used by parents who may be eligible for certain credits. It identifies the child on their federal tax return while final adoption is pending. Get Form W-7A, "Application for Taxpayer Identification Number for Pending Adoptions," from the IRS. It takes four to eight weeks to get an ATIN.

All returns, statements and other tax-related documents must have valid ID numbers. ITINs are for tax purposes only and don't entitle the holder to Social Security benefits or change the holder's employment or immigration status under U.S. law. Foreign persons who need ITINs include those:

- filing a U.S. tax return to report U.S.-source income;
- filing a U.S. tax return only to claim a refund of tax withheld;
- who are the spouse of a U.S. citizen or resident who elects to file a joint tax return;
- being claimed by a spouse for an exemption on a U.S. tax return; or
- being claimed as a dependent on another person's U.S. tax return.

People can apply for ITINs by sending Form W-7, "Application for IRS Individual Taxpayer Identification Number," to the IRS. It takes about 30 days to get one.

ITINs are not available for U.S. citizens or persons legally permitted to reside permanently or to work in the United States. These people qualify for SSNs and should apply by sending Form SS-5, "Application for a Social Security Card," to the Social Security Administration. It takes about two weeks.

To get IRS Form W-7 or W-7A, call 1-800-829-3676. To get SSA Form SS-5, call 1-800-772-1213.

Invest in an IRA

These days, people have to plan ahead and invest wisely to provide for a more secure retirement. For many, setting up an individual retirement arrangement (IRA) can give that extra peace of mind.

Anyone who has taxable compensation, such as wages, tips, commissions and taxable alimony, and who will be under age 70 1/2 at the end of the year, can set up an IRA. Money can be put into an IRA any time during the year or by the due date of the tax return for that year, not including extensions.

Contributions must be in the form of money, such as cash, check or money order. Property doesn't count. Many people can deduct part or all of their contributions. And the earnings generally are not taxed until they are withdrawn from the account.

The most a person can contribute for any year is \$2,000 or taxable compensation, whichever is smaller. Married couples who both work can each invest up to \$2,000. And beginning in 1997, a couple may put \$2,000 into each spouse's IRA even if one spouse has little or no taxable compensation. Previously, their combined contributions were limited to \$2,250.

Starting in 1997, the 10-percent additional tax on early withdrawals from an IRA doesn't apply to distributions up to the amount paid for unreimbursed medical expenses that are more than 7 1/2 percent of adjusted gross income. Also, the 10-percent additional tax may not apply to distributions up to the amount people pay for medical insurance for themselves, their spouse and dependents. However, certain conditions must be met.

The Taxpayer Relief Act adds some new IRA provisions beginning in 1998. One is a new IRA to invest in. The "Roth IRA" features nondeductible contributions, with tax-free distributions if they begin at least five years after the the initial contribution and the taxpayer is at least age 59 1/2, or disabled, or a beneficiary, or the proceeds are used for a first-time home purchase.

Annual contributions to all IRAs—Roth, deductible and nondeductible—are limited to a total of \$2,000. The limit for Roth IRAs is phased out as adjusted gross income (AGI) increases from \$95,000 to \$110,000 (\$150,000

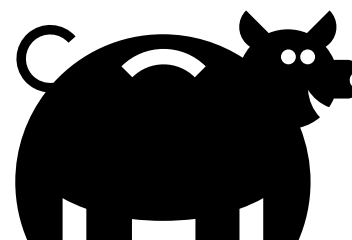
to \$160,000 on a joint return). Unlike the other two IRA types, Roth IRAs allow people to contribute after they reach age 70 1/2, and don't require any mandatory withdrawals.

Those with AGI under \$100,000 can roll over a non-Roth IRA into a Roth IRA. They will have to pay tax as though they had withdrawn the funds, but there is no early withdrawal penalty. If the rollover takes place in 1998, the taxable amount is spread out over four years. That is, one-quarter of the taxable rollover is included in income in 1998, 1999, and so on. Married couples filing separate returns can't contribute to, or roll over into a Roth IRA.

The Taxpayer Relief Act also created an "Education IRA," which is not a retirement savings vehicle, but one used to pay for qualified higher education expenses of a designated beneficiary. It features nondeductible contributions up to \$500 a year per beneficiary, with no tax on the earnings when used for higher education expenses. The beneficiary must be under age 18 when the contribution is made. The limit is phased out for a contributor as that person's income increases, with the same phase-out range as for the Roth IRA.

For people who want to tap into non-Roth IRAs to help pay for qualified higher education expenses, the Act allows them to do so. And first-time home buyers can withdraw up to \$10,000 from their IRAs. In each case, they'll pay tax on the amount withdrawn, but no penalty.

Publication 590, *Individual Retirement Arrangements (IRAs)*, gives information on IRAs, including how to compute and report deductible and nondeductible contributions, when to start withdrawing the money, the new rules beginning in 1997, and what actions will result in penalties. Publication 553, *Highlights of 1997 Tax Changes*, discusses new tax law. Order them by calling 1-800-829-3676.



Small Business and Fairness

The Small Business Regulatory Enforcement Fairness Act (SBREFA), passed last year, sets up new ways for small businesses to get involved in how federal regulations are written and enforced. It gives small business owners the opportunity to comment (compliments or complaints) about federal agency enforcement actions to the new Small Business Administration (SBA) Ombudsman. After reviewing the comments, the SBA Ombudsman will send appropriate ones to the IRS Taxpayer Advocate. From there, they will be assigned to an IRS office for response to SBA and/or the business owner.

Each of the ten recently-created SBA Regional Fairness Boards consists of five small business owners or operators who report to the SBA Ombudsman. The Fairness Boards will hold meetings this year to hear small business concerns about federal agency enforcement actions.

By listening to its customers, the IRS hopes to improve compliance, increase customer satisfaction and reduce taxpayer burden. For more information on SBREFA, call the SBA toll free at 1-888-REG-FAIR.

Check the Numbers Now

The Internal Revenue Service reminds people to double check all Social Security numbers (SSNs) on every tax form and schedule. "We just can't process returns without correct SSNs," the IRS says. "A wrong or missing SSN can delay refunds." Here's a quick checklist of things to look out for:

—Numbers that are transposed or left out.

—SSNs for all dependents (use Form SS-5 to apply).

—Names that have changed because of marriage or divorce. (Notify the Social Security Administration (SSA) immediately after a change.)

—Aliens who do not qualify for SSNs must get IRS-issued individual taxpayer identification numbers (ITINs) (use Form W-7 to apply).

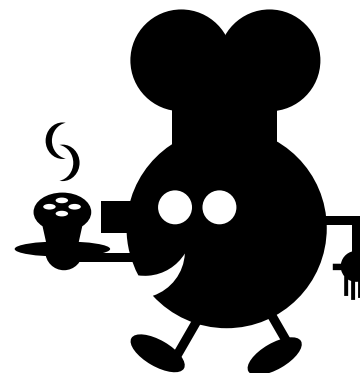
—People in the process of a domestic adoption may need an adoption taxpayer identification number (ATIN) for the child (use Form W-7A to apply).

"It's worth taking the extra time to check all tax forms and schedules for correct SSNs," the IRS says. Doing so now can eliminate frustration later.

Tax Tips for Small Businesses

Keeping a small business running smoothly is no easy job—especially when it comes to taxes. The IRS has some free tax information to help small business owners and sole proprietors tackle their tax obligations.

Publication 334 provides general information for sole proprietors who file Schedule C or C-EZ. Publication 1518 is a 12-month wall calendar for small businesses that provides tax tips ranging from starting a business to planning for retirement. It also shows tax due dates each month, lists free tax publications, and describes ways to get tax and business information from the IRS and other agencies. Call 1-800-829-3676 for these and other free publications and forms.



Free Tax Help from the IRS

Get free tax help from the Internal Revenue Service. No, that's not a misprint. Just order IRS Publication 910, *Guide To Free Tax Services*, and read all about it. It describes year-round services, tax time assistance and frequently requested publications for both individuals and businesses. To get Publication 910, call 1-800-829-3676. Here are some highlights.

PRP Fixes Tax Problems

Have a problem with the IRS that has yet to be resolved? The Problem Resolution Program (PRP) can help resolve problems that haven't been settled through normal channels. Call the IRS and ask for PRP.

Volunteer Tax Help

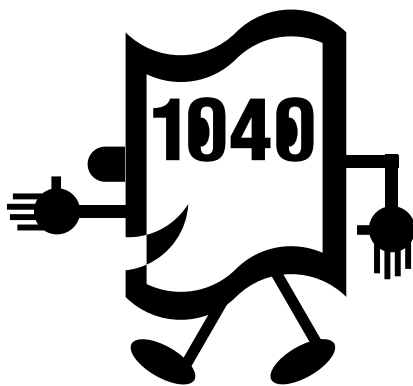
Need help with a basic tax return? If so, the Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) programs may be of service. Both provide specially-trained volunteers to prepare basic tax returns. VITA and TCE volunteers help older individuals, those with disabilities, and non-English speaking taxpayers with their taxes in locations convenient to them. Call the IRS for the nearest location.

Braille and Large Print Materials

Federal tax materials in Braille are available at Regional Libraries for the Blind and Physically

Handicapped in conjunction with the Library of Congress. These materials include Publication 17, *Your Federal Income Tax*; Publication 334, *Tax Guide For Small Business (for Individuals Who Use Schedule C or C-EZ)*; and Forms 1040, 1040A and 1040EZ, and Schedules A and B, with instructions. Large-print copies of Form 1040, its schedules and instructions are in Publication 1614. Large-print copies of Form 1040A, Schedules 1, 3 and EIC, and their instructions are in Publication 1615. The copies can be used as worksheets to figure your tax.

Taxes Made Easier



People may find it easier to prepare their federal income tax returns if they remember this rule of thumb: keep track of all pertinent records throughout the year. Start now with a copy of this year's return. Add to that any canceled checks, receipts and records that will help when filing next year's return. Keeping income and expense records in good order can save hours of searching at the end of the year and make tax filing a lot easier.

Choosing a Tax Preparer

Searching for an income tax preparer that suits a person's particular needs can be quite a task. To help make the best choice, people should ask themselves these questions: How complicated is my tax situation? Do I know others who have gone to the preparer and can tell me about the preparer's service? Does the preparer offer the electronic filing and payment options I want? Will the preparer be there later in the year, or in a year or two, to answer questions on my return? The answers to these questions will help in the search.

Taxes at Age 55 Plus

For older Americans, some legislative changes may affect their tax planning, and some tax benefits are still available. Here's the scoop.

New law has replaced the once-in-a-lifetime tax break when people age 55 or older sell their personal residence. Under the old law, they could qualify for an exclusion of up to \$125,000 of gain on a home sale. And they still can, if they sold their home before May 7, 1997.

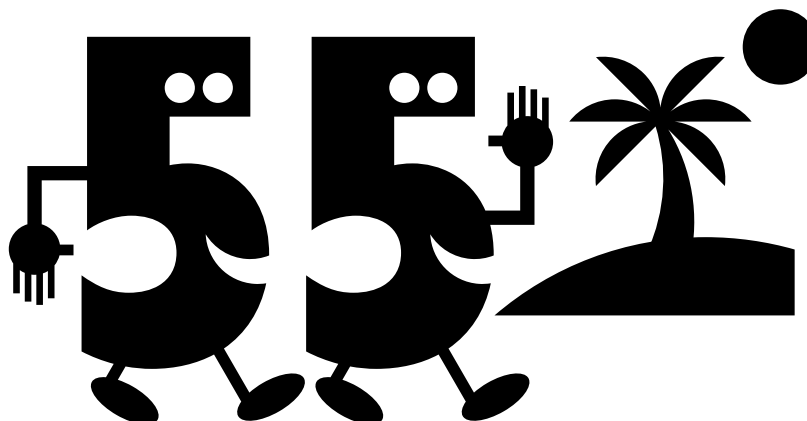
The Taxpayer Relief Act, signed into law on August 5, 1997, allows people regardless of age to exclude up to \$250,000 of gain (\$500,000 on a joint return) from the sale of a personal residence after May 6, 1997. Unlike the one-time exclusion, this one is allowed once every two years, but only if the person used the home as a principal residence for at least two out of the five years before the sale. People age 55 or older who sold their homes after May 6 and

people age 60 or older who need help with their tax returns. Through TCE, volunteers from many organizations provide free tax information and guidance. Local IRS offices have information on locations.

Seniors age 65 or older may not have to file a tax return if their income is less than a certain amount. For 1997, that amount for single seniors is \$7,800. The limit for a married couple filing a joint return is \$13,000 if only one spouse is 65, and \$13,800 if both are 65 or older. For a qualifying widow(er) with a dependent child, the amount is \$10,350. And for a senior head of household, it's \$9,700.

Those who don't itemize deductions get a higher standard deduction when they reach 65. And those who are blind get an extra added amount.

Seniors or people with disabilities may qualify for the credit for the elderly or the disabled. This credit is



before August 6, 1997, may choose either exclusion.

The Act also makes available a new individual retirement arrangement (IRA) starting in 1998. This new "Roth IRA" features nondeductible contributions, with tax-free distributions if they begin at least five years after the initial contribution and the taxpayer is at least age 59 1/2, or disabled, or a beneficiary, or the proceeds are used for a first-time home purchase. People can contribute after they reach age 70 1/2, and they don't have to make mandatory withdrawals.

One benefit that is still around for older people is Tax Counseling for the Elderly (TCE). It's available to

based on age, income and filing status, and can reduce the amount of taxes owed. Those under 65 could be eligible if they retire with total and permanent disability and have income from their employer because of that disability.

The IRS considers persons to be age 65 on the day before their 65th birthday. So to the IRS, those born on January 1, 1933, are age 65 on December 31, 1997, and can claim tax benefits related to that age on their 1997 returns.

For more information, get Publication 554, *Older Americans' Tax Guide*, and Publication 910, *Guide to Free Tax Services*. Call 1-800-829-3676.

Check Mail to the IRS



Before dropping it in the mailbox, always check mail to the IRS for enough postage and complete addresses—both the return address and IRS office. Otherwise, the mail could get lost or delayed, and that could cause penalties, interest and frustration.

Taxes in Spanish

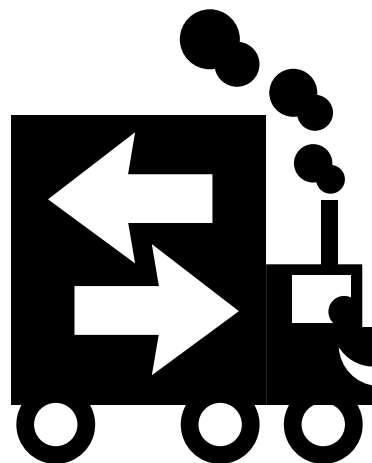
Where can people get tax help in Spanish? Publication 579SP, *Cómo Preparar la Declaración de Impuesto Federal*, has information in Spanish about which form to file, which filing status to choose, taxable and nontaxable income and some of the more common tax credits. Call 1-800-829-3676 to order.

Missing W-2

Employees should get a Form W-2 from each employer by January 31. If they don't get it shortly after that, they should ask the employer for one. If there is still no W-2 by February 15, call the IRS for help at 1-800-829-1040.

Moved Lately?

People who have recently moved should let the IRS know. If the IRS doesn't have the current address, then a tax refund or any letters about past returns may never get to the new address. Send Form 8822 right away. Don't let a refund get lost or returned to the IRS.

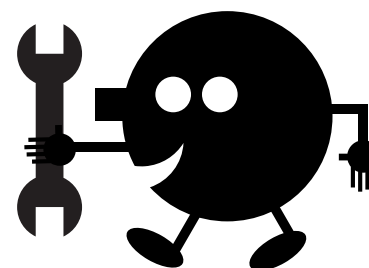


Name Change

People whose names change for any reason, such as marriage or divorce, should notify the Social Security Administration (SSA). Names and Social Security numbers on tax returns must match those the SSA has on record, or there can be delays in getting federal income tax refunds.

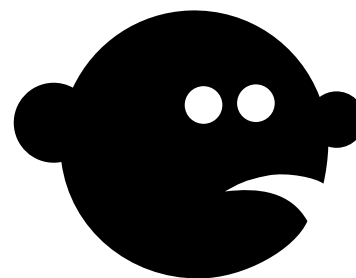
Health Insurance Deduction for Self-Employed

People who are self-employed can deduct health insurance expenses for themselves, their spouses and dependents. The deduction amount is 40 percent in 1997. Under new law, the rate for the 1998 and 1999 deduction amount is 45 percent. It's 50 percent in 2000 and 2001, and eventually increases to 100 percent by the year 2007 and thereafter.

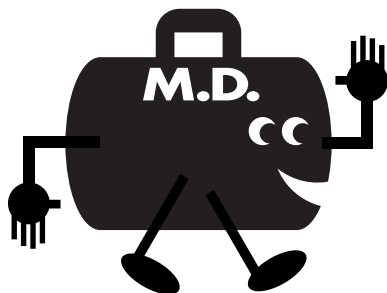


No Refund Yet?

People expecting a refund, but who haven't paid certain bills, may find themselves waiting quite awhile. Federal law allows income tax refunds to be taken to pay off all or part of past-due child and spousal support, delinquent student loans, income tax or other federal debts. The IRS will let people know if their refund was used to pay back what they owe.



Tax-free Medical Savings Accounts



Some people who are covered under a high deductible health plan may be able to participate in a medical savings account (MSA) program. An MSA is a type of trust, similar to an individual retirement arrangement, that lets people set aside money for qualified medical expenses that aren't covered or reimbursable by their health plan.

The MSA is a pilot program during the period 1997-2000, limited to 750,000 participants. Self-employed people and employees of certain small businesses with 50 or fewer workers may be able to make tax-deductible contributions to an MSA. Employers can make MSA contributions for their employees, and deduct them on their business tax returns, but then the employees (and the spouses) cannot make deductible contributions. Employers exclude the MSA contribution amounts from their employees' income.

In both cases, the health insurance annual deductible amount must be between \$3,000 and \$4,500 for families (\$1,500 and \$2,250 for self only). The annual cap on out-of-pocket expenses must be \$5,500 or less for families (\$3,000 or less for self only). Contribution amounts are limited to 75 percent of the annual deductible for families (65 percent for self only), and cannot exceed an employee's compensation or a self-employed person's business profit.

For more details, get free IRS Publication 502, *Medical and Dental Expenses*; Publication 15, *Circular E, Employer's Tax Guide*; or Publication 334, *Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)*.

Taxes and Owning a Home

Thinking about buying or selling a home? Happy with the same old homestead? Keep in mind that home ownership and tax returns go hand in hand.

"Whether buying a first home, living in a home for some time, or in the process of selling one, home ownership can have a big effect on income tax returns," the IRS says.

When buying a home, some of the settlement fees and closing costs can be deducted in the tax year the house is bought. These costs include certain real estate taxes, mortgage interest and points that meet certain requirements.

Other costs of buying a home may be included in the basis of the property. "Basis," says the IRS, "is a way to measure the investment in a home for tax purposes." Costs like abstract and recording fees, surveys and owner's title insurance are included in the basis.

For people who itemize deductions, interest on most mortgages secured by a person's first or second home is deductible. In addition, qualifying points on a loan used to buy or improve the main home are usually deductible in the year paid.

Real estate taxes, imposed by state or local governments for the general public welfare, are usually deductible.

The Taxpayer Relief Act, signed into law on August 5, 1997, has ended both the once-in-a-lifetime tax break for people age 55 and older and the replacement home rule when people sell a principal residence. Under the old law, those 55 and older could qualify for an exclusion of up to \$125,000 of gain on the home sale. Anyone who, within two years of the sale, bought a replacement home costing at least as much as the selling price of the old residence, would roll over any gain into the basis of the new home, thus postponing taxes. "And they still can," the IRS says, "if they sold their homes before May 7, 1997."

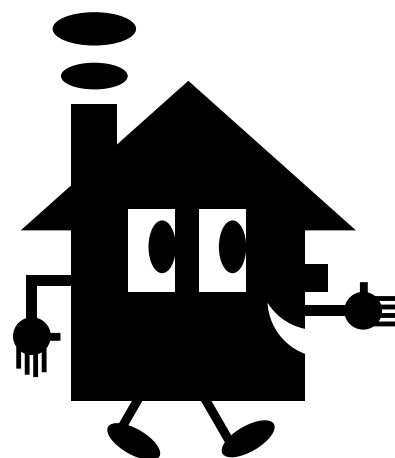
Under the new law, people of any age can exclude up to \$250,000 of gain (\$500,000 on a joint return)

from the sale of a principal residence after May 6, 1997. Unlike the one-time exclusion, this one is allowed once every two years, but only if the person used the home as a principal residence for at least two out of the five years before the sale. If a person sells before satisfying the two-year residency requirement because of a change in employment or health, the exclusion is pro-rated by the percent of the two-year time met. The seller will have to pay tax on any gain exceeding the exclusion—the replacement home rule no longer applies. Those who sold a principal residence after May 6 and before August 6, 1997, may use either the old or new tax rules.

For figuring the gain on the sale of a home, the IRS reminds people to keep accurate records of all items that affect the basis of the home. This includes improvements such as adding a room, finishing a basement or putting up a fence.

More information on buying, owning or selling a home is covered in the following free publications. Call 1-800-829-3676. Or check them out on the Internet at www.irs.ustreas.gov.

- Publication 523, *Selling Your Home*
- Publication 530, *Tax Information for First-Time Homeowners*
- Publication 936, *Home Mortgage Interest Deduction*



Plug In to an Electronic IRS

Got a wall socket or phone jack? Then plug in a computer and telephone and hook up to the Internal Revenue Service. People can get the tax help they need from the IRS on their home computers, through their modems, on the World Wide Web, or with a CD-ROM. Or they can use a fax machine to dial up IRS TaxFax.

The Web site at www.irs.ustreas.gov has everything from tax forms and publications to complete tax information for both individuals and businesses, all written in a simple, user-friendly format. Even the most novice Internet users will find the page easy to navigate. The FTP address is [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov), and the Telnet address is [iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov).

For those not on the Internet, IRS has an electronic bulletin board service that provides tax forms,

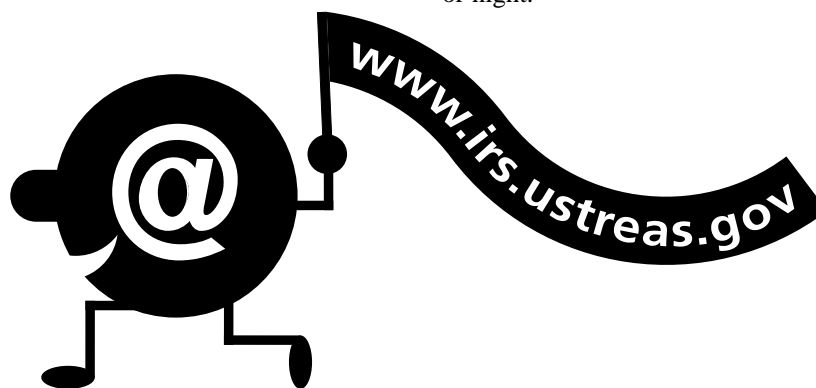
publications, individual and business tax news and a variety of other helpful information. Dial 1-703-321-8020 via modem.

IRS also provides most tax forms and publications on CD-ROM. People can buy the CD through the Government Printing Office by calling 1-202-512-1800. Subscribing libraries let their

patrons use the CD to print out needed forms.

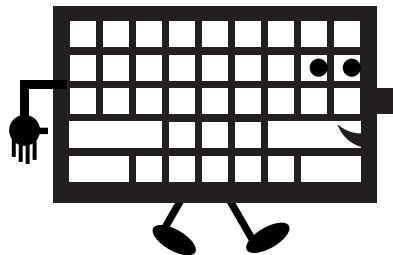
And finally, for those with access to a fax machine, the IRS provides the most commonly used forms, many of the instruction sheets and the TeleTax topics. Dial 1-703-368-9694 from a fax machine.

Plug in to the IRS anytime, day or night.



Tax Filing Options

More people are putting away their pencils and tax forms and reaching for computer keyboards or telephones. Here's why.



Last year, over 19 million people chose to file their tax returns electronically, either by computer or by phone. The Internal Revenue Service's electronic filing system, called "IRS *e-file*," lets tax professionals and transmission services accepted by the IRS send their clients' tax return data from their computers straight to IRS computers.

In most states with income taxes, people can electronically file their state and federal taxes together. The IRS has teamed up with state tax agencies to offer this one-stop service. Last year, 4.3 million

people electronically filed joint federal/state returns.

People using tax preparation software on their personal computers can file the finished returns using a modem. Of those who filed electronically last year, 366,000 filed from their personal computers.

More than 4.7 million people used the IRS TeleFile system in 1997. TeleFile lets eligible people with simple tax returns file by phone. They call a toll-free number using a Touch-Tone phone and enter total wages, interest, tax withheld and other information from the TeleFile tax record. IRS computers figure income, tax, and any refund or tax owed while the person is on the phone. The IRS mails a TeleFile tax booklet to those whose previous tax returns indicate they may be eligible for TeleFile.

Here's what's so good about IRS *e-file*—the error rate is less than 1 percent. This means people who use an electronic filing option are less likely to get a notice from the IRS because of mistakes typically associated with paper filing. IRS computers automatically check

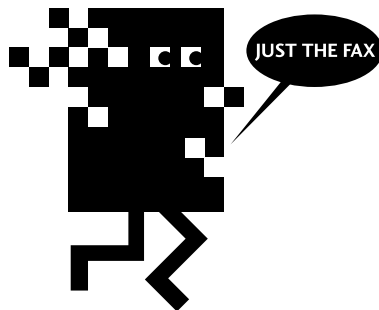
electronic returns for errors and missing information before accepting them. And the IRS acknowledges acceptance of the returns. When filing electronically, those who owe taxes can file when they're ready, then send in the payment by April 15. Those getting refunds will have them sooner than paper return filers, with Direct Deposit into a savings or checking account ensuring the fastest service.

For people who still want to lick a stamp, there's Form 1040PC. It's a print option that comes with many tax preparation software programs. Unlike traditional paper forms that may have many blank lines, the 1040PC option prints only the lines that have entries. The result is a three-column list that fits on one or two pages to mail to the IRS.

People should always double check their returns whether they file the traditional way or pick one of these options. Keep in mind that using correct Social Security numbers prevents processing delays. And a complete return address and sufficient postage get mailed returns to the IRS on time.

Call for Tax Help

Call the Internal Revenue Service for tax help. It's available in print, over fax, through recordings and automated refund status programs, and via computer. Here are some helpful phone numbers to remember at tax time and all through the year. Numbers beginning with "1-800" are toll free.



- To order forms and publications, call 1-800-829-3676 (1-800-TAX-FORM). *Most publications, some in Spanish, are listed in Publication 910.*

- To get forms and instructions via fax, dial 1-703-368-9694. *Dial from the fax machine for the most commonly used forms.*

- To order a CD-ROM with most IRS forms and publications, call the U.S. Government Printing Office's Superintendent of Documents at 1-202-512-1800. *Ask for stock number 648-095-00004-0.*

- To hear recorded tax messages on TeleTax, call 1-800-829-4477. *Over 140 tax information messages, some in Spanish.*

- To get automated refund information, call 1-800-829-4477.* *Publications 910 and 579SP (Spanish) have details (*California residents, please check either publication for correct phone number in your area).*

- To get tax assistance for the hearing impaired, call 1-800-829-4059. *Must have access to TDD equipment.*

- To reach IRS services via computer for federal tax forms, publications and other information:

Access via the Internet:

World Wide Web:

www.irs.ustreas.gov

File Transfer Protocol:

[ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)

Telnet: [iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)

Access by modem:

1-703-321-8020

File EZ Tax Returns by Phone

Want quick and paperless tax filing? Use TeleFile, the Internal Revenue Service's file-by-phone system.

The IRS will mail a special tax booklet to the people who may qualify. Hang on to it. It's the only ticket to TeleFile. Just fill out the TeleFile tax record in the booklet. Then call the toll-free TeleFile number from any Touch-Tone phone 24 hours a day, seven days a week.

When people call, the TeleFile system gives prompts to enter wage and tax information from Form W-2. TeleFile calculates the total taxable income, adjusted gross income, amount of refund or balance due, and even the earned income tax credit for those who qualify.

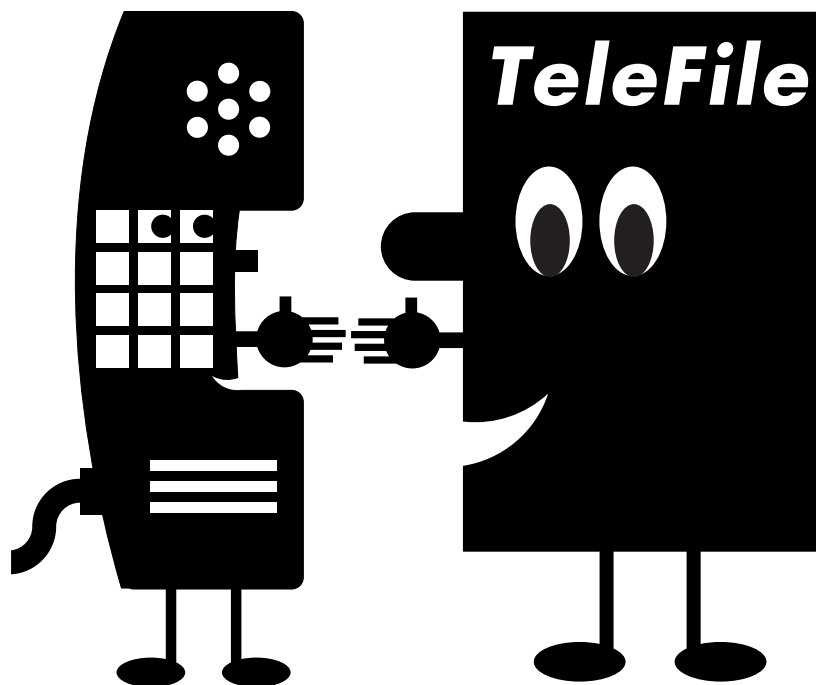
At the conclusion of the process, the system gives a confirmation number, which the caller should write on the TeleFile tax record. This completes the filing of the tax return. Hanging up before hearing the confirmation number means the tax return has not been filed.

The entire call takes about 10 minutes. The IRS can then issue any

refund check due, or people can have their refunds deposited directly into their savings or checking accounts. Mail any payment owed to the IRS by April 15, 1998.

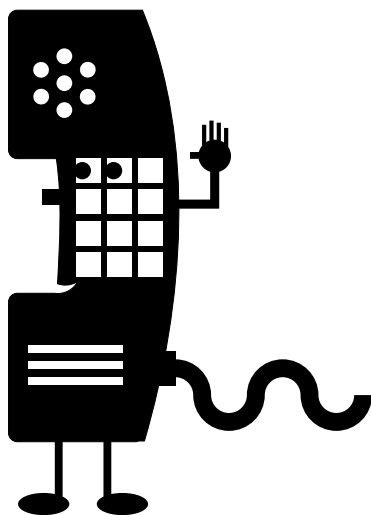
TeleFile users can be either single or married, filing jointly, with no dependents. Their total taxable income must be less than \$50,000. This income may include wages, tips, taxable scholarships or fellowship grants, taxable interest of \$400 or less, unemployment compensation, and Alaska Permanent Fund Dividends. Also, they must have filed a tax return previously and not have changed their address in the past year.

About 4.7 million people used TeleFile last year, and the error rate was less than 1 percent. That means people were much less likely to get a notice from the IRS because of mistakes typically associated with paper filing. And thirteen states now offer their own TeleFile system that lets qualified residents file their state tax returns by phone.



File Form 941 by Phone

During 1997, the Internal Revenue Service tested telephone filing for employment taxes with selected businesses in the Southeastern states. These businesses received 941 TeleFile instructions in the mail with their regular Employer's Quarterly Federal Tax Return. This allowed them to file these tax returns with a toll-free phone call.



"It saves businesses time, time they can spend handling the other aspects of running a business," says the IRS. So far, 941 TeleFile has been quite successful, and most users indicate they'll use it again. The IRS will make it available nationwide in 1998, sending TeleFile packages to employers eligible for the system.

Business owners who get 941 TeleFile instructions in the mail can just fill in the Tax Record, make about a 10-minute call from a Touch-Tone phone and follow the step-by-step instructions. That's it, the computer does the math. It tells the caller the IRS has accepted the return. At the end of the call, it will give a confirmation number to write down on the Tax Record as proof of filing.

Electronic Tax Payments for Businesses

Every day, more business owners discover the fast, easy and convenient way to pay their taxes electronically. Through the Electronic Federal Tax Payment System (EFTPS), people initiate their federal tax deposits by telephone or personal computer.

More than a million of the businesses required to use EFTPS have enrolled. Another 400,000 that aren't required to use EFTPS have voluntarily signed up. Why? Because of the speed and convenience of the system plus the low error rate (less than half a percent). People don't have to get any new equipment to use EFTPS, and the need for Federal Tax Deposit coupons, writing checks and trips to the bank is gone.

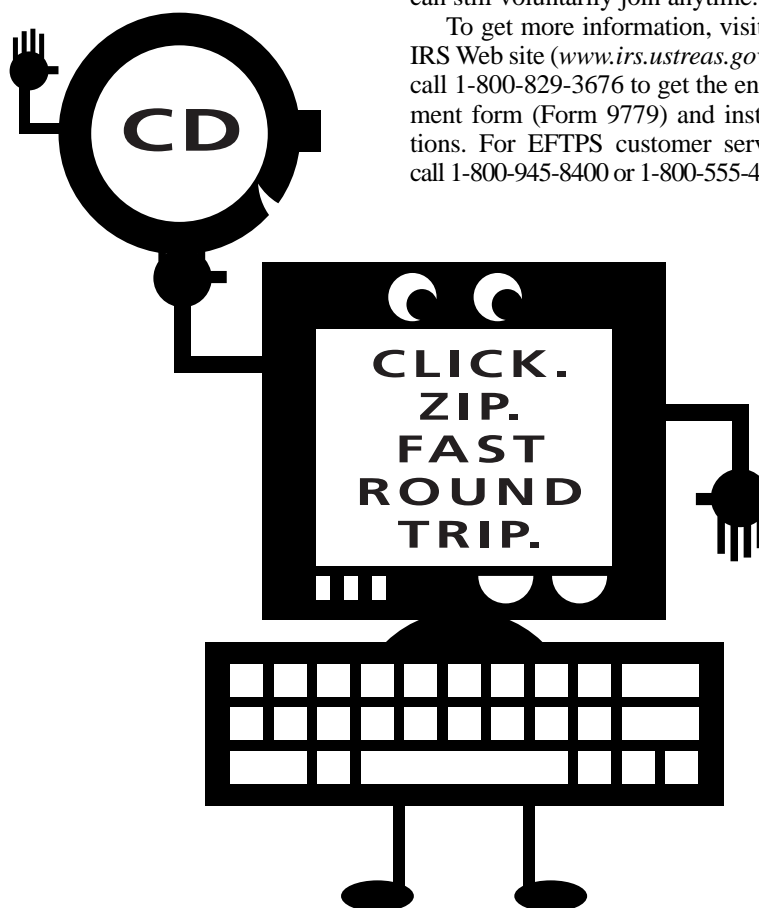
Two Treasury Department financial agents, NationsBank and the First National Bank of Chicago, manage the system. These banks enroll people in EFTPS, provide customer service, direct payments to the government's account and provide tax payment

information to the IRS. The enrollment process normally takes several weeks.

Taxpayers don't have to open accounts with these banks to use EFTPS. They can authorize either their own bank or the Treasury financial agent to initiate payments for them.

Starting in 1998, businesses that paid employment taxes of more than \$50,000 in 1996, or that paid no employment taxes but made other depository tax payments of more than \$50,000 in 1995 or 1996, must use EFTPS. Although they have a penalty-free grace period through June 30, 1998, to begin using EFTPS, the IRS encourages them to enroll early so that they can learn to use the system and gain confidence in making their federal tax payments electronically. After June 30, the law imposes penalties on businesses that do not make their required electronic payments. Businesses not required to use EFTPS can still voluntarily join anytime.

To get more information, visit the IRS Web site (www.irs.ustreas.gov) or call 1-800-829-3676 to get the enrollment form (Form 9779) and instructions. For EFTPS customer service, call 1-800-945-8400 or 1-800-555-4477.



File Taxes from Home



People can file their taxes in a faster, more convenient way—right from their personal computers. All they need to file electronically, or “e-file,” is a modem and IRS-accepted tax preparation software. Then they can e-file the finished returns using a transmitting agent.

The transmitting agent sends returns directly to the IRS (and may charge a fee to do so). IRS computers automatically check returns for errors and missing information before accepting them. And the IRS acknowledges acceptance of the returns. The error rate is less than 1 percent, so people who e-file from their PCs are less likely to get a notice from the IRS because of mistakes typically associated with paper filing.

People can e-file their taxes from their PCs whether they owe money or expect a refund. They can get their refunds in half the time as paper filers, with Direct Deposit into their checking or savings accounts ensuring the fastest service. If they owe, they must pay by April 15.

Get IRS Online

Get online and get IRS tax forms, publications and other information for individuals and businesses. Access through the Internet via the World Wide Web (www.irs.ustreas.gov); file transfer protocol ([ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)); or Telnet ([iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)). To access by modem, dial 1-703-321-8020.

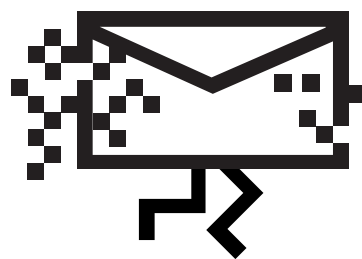
Direct Deposit for Faster Refunds

Speed up a tax refund. Join the more than 16 million people who chose Direct Deposit last year.

People can have their income tax refunds deposited directly into their savings or checking accounts. “Direct Deposit is more secure because there’s no check to get lost,” the IRS says. “And it takes the Treasury less time than issuing a check. So people may get their refund sooner and they don’t have to make a trip to the bank.”

Direct Deposit is available for all individuals, regardless of how they file their returns—by phone, by computer, or by mail. Those using paper returns must fill in the “Refund” part of the tax return.

People should check with their financial institutions to make sure they accept Direct Deposit, including joint refunds into individual accounts. They can also verify the correct routing and account numbers.



“There are some limitations,” the IRS says. Direct Deposit can’t be used when filing a prior year’s return. Also, Direct Deposit will not occur if the name on the tax return and bank account don’t match. Nor will there be Direct Deposit of refunds into foreign bank accounts. If the Direct Deposit can’t be done, the IRS will send a check instead.

E-file this Year

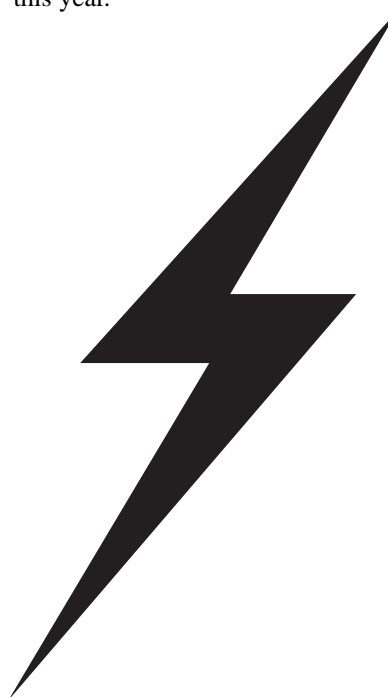
People who want their tax refunds fast should try it. Those who don’t want a letter from the IRS should try it, too. Try what? The IRS’ electronic filing system, called “IRS e-file.”

People who e-file their returns will get their refunds in half the time as paper filers, even faster with Direct Deposit. And the error rate is less than 1 percent, so those who e-file are less likely to hear from the IRS because of mistakes typically associated with paper filing.



And there’s more than one way to e-file. People can ask a tax professional to e-file their returns. They can use their personal computers and commercial tax software to e-file directly from home. Or they can use their Touch-Tone phones if they get a TeleFile booklet in the mail.

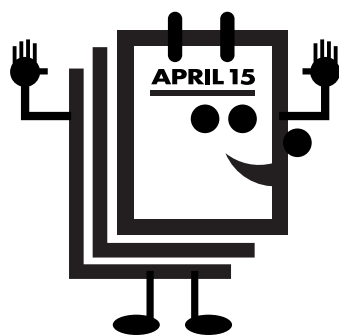
So go ahead and try it. E-file this year.



ELECTRONIC

Late Filing May Put Nonresidents' Tax Deductions at Risk

Nonresident aliens and foreign corporations in the United States must file their tax returns by the due date to avoid late penalties and interest. However, if their returns are still not filed within certain time limits after the due date, they risk losing certain tax deductions and credits.



Foreign corporations required to file a Form 1120F, "U.S. Income Tax Return of a Foreign Corporation," for the first time either this year or last year must file within 18 months after the due date of their current Form 1120F to avoid losing tax deductions or credits.

Foreign corporations not filing for the first time either this year or last year have an additional time factor to consider. They must file their returns by the earlier of 18 months after the current year tax due date, or by the date the IRS notifies them that their return has not been filed, or the credits and deductions may not be claimed.

Nonresident alien individuals who must file Form 1040NR, "U.S. Nonresident Alien Income Tax Return," have the same basic criteria except they have only 16 months to file their return before losing tax deductions or credits.

Additional information is available by writing to the IRS, Assistant Commissioner (International), Attention: CP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.

Tax Law Change on Home Sale Profits

The Taxpayer Relief Act of 1997 repealed the rollover of gain and one-time exclusion provisions for sales of principal residences. This repeal applies to sales and exchanges after May 6, 1997, but taxpayers may opt to use the old rules for sales before August 5, 1997.

For sales prior to May 7, 1997 (or, at the seller's option, prior to August 5, 1997):

People who sell their homes at a profit may usually postpone payment of taxes on the profit if, within two years of the sale, they buy a new home. This replacement home must cost at least as much as the sale price, minus certain adjustments, of the old home. However, U.S. taxpayers moving overseas to work may be able to extend the replacement period while they are out of the United States.

To qualify, taxpayers must move overseas to work within two years of the time their home was sold. The time frame for civilian U.S. taxpayers to replace their home is suspended while they are out of the U.S. but, overall, cannot be longer than four years from the date they sold their old home. Military personnel overseas may have up to eight years to

purchase and move into a new home in order to defer paying tax on the gain from the sale of their old home. This extension also applies to those military personnel living in base housing at a remote site after being stationed overseas.

For sales after May 6, 1997:

Taxpayers can generally exclude up to \$250,000 of gain (\$500,000 if married filing a joint return) realized on the sale or exchange of the home. The exclusion is allowed each time a taxpayer sells or exchanges a principal residence, but generally not more than once every two years. The home must have been used as the taxpayer's principal residence for a combined period of at least two years out of the five years prior to the sale.

The exclusion does not apply to any gain resulting from depreciation allowable with respect to rental or business use of the property after May 6, 1997. Nor does the exclusion apply to expatriates who are treated under the law as having lost U.S. citizenship to avoid taxes.

IRS Publication 523, *Selling Your Home*, contains details on this subject. It is available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



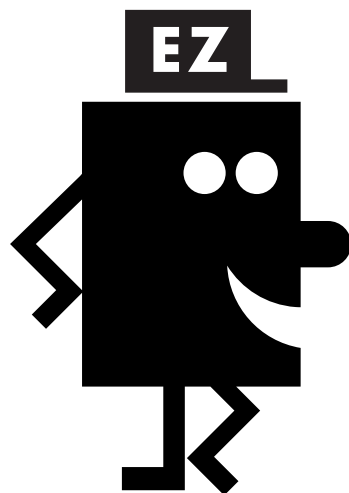
Some Nonresident Aliens Get EZ Tax Form

The Internal Revenue Service has a simpler tax form for nonresident aliens with simpler tax reporting requirements. It's Form 1040NR-EZ, "U.S. Income Tax Return for Certain Nonresident Aliens With No Dependents."

Besides having no dependents, nonresident aliens must meet certain other conditions to file their taxes using Form 1040NR-EZ.

They cannot be claimed as a dependent on someone else's return. They are under age 65 on January 1, 1998, and not blind at the end of 1997. Their taxable income is less than \$50,000, and comes only from wages, salaries, tips, refunds of state and local income taxes, and scholarship or fellowship grants. They are not claiming any itemized deductions other than state and local income taxes paid, credits, or any exclusions from income other than scholarship and fellowship grants. They have no "other taxes." Married nonresident aliens from Canada, Mexico, Japan, or the Republic of Korea, a U.S. national, or an Indian student claiming a spousal exemption may not use Form 1040NR-EZ.

If these conditions aren't met, then use Form 1040NR, "U.S. Nonresident Alien Income Tax Return." To get the forms and instructions, write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.



Residents Abroad Have Continuing Tax Obligation

U.S. citizens living outside the United States have a continuing federal tax filing obligation to the United States. U.S. citizens and resident aliens who live abroad may have to file U.S. income tax returns. People with permanent U.S. resident status are subject to tax on their worldwide income just the same as U.S. citizens.

Being out of the country does not change the U.S. resident status of green card holders. They are still liable for filing U.S. tax returns and could end up with sizeable penalty and interest payments if they don't file and pay their taxes due.

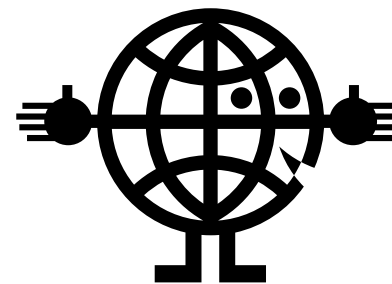
However, the foreign earned income exclusion can provide some relief to taxpayers living and working in a foreign country. To qualify for the exclusion, they must have a tax home in a foreign country and be a resident of that country or meet a physical presence tax test.

Those who qualify can subtract up to \$70,000, for each taxpayer, of foreign earned income from their U.S. gross income. U.S. government employees are not eligible for the exclusion, but some independent contractors working for the U.S. government may qualify. The foreign earned income exclusion will be increased by \$2,000 each year, starting at \$72,000 in 1998 and reaching \$80,000 in 2002 and thereafter.

To claim the exclusion, file Form 1040 and attach Form 2555, "Foreign Earned Income," or 2555EZ, "Foreign Earned Income Exclusion." Those who are late in filing may still be able to claim the exclusion for prior years, providing they file before the IRS discovers their failure to elect the exclusion.

The necessary forms and IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, are available by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Filing Extension for Taxpayers Overseas



Some people have until June 15 to file their income tax return this year. The Internal Revenue Service allows an automatic two-month extension to people living and working outside the United States on April 15. To get the extension, they should include a note with their return when it is filed stating that their tax home was in a foreign country on April 15.

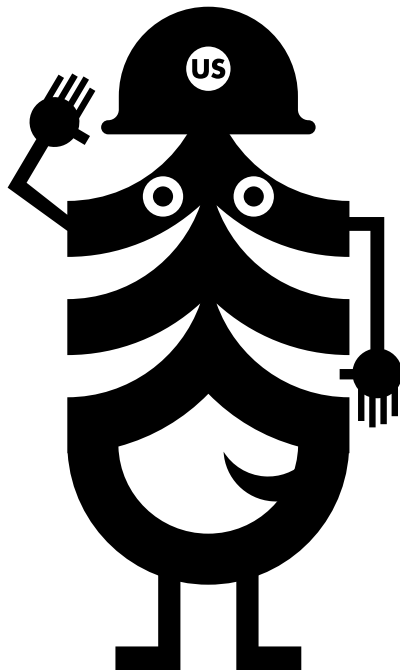
Taxpayers abroad can also extend the due date to August 17 by filing Form 4868, "Application for Automatic Extension of Time to File U.S. Individual Income Tax Return." The form must be filed by June 15.

Still another two-month tax filing extension, to October 15, is available on a case-by-case basis. File Form 2688, "Application for Additional Extension of Time to File U.S. Individual Income Tax Return," no sooner than 30 days following the filing of the automatic extension Form 4868.

The IRS emphasizes that all these extensions are only extensions of time to file a complete tax return. Any tax due should be estimated and paid on the April 15 due date to avoid interest charges and late payment penalties. However, an extension application can be submitted even if those applying don't have the money to include a tax due payment.

IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, gives more information on extensions. Get it by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Tax Rules for Armed Forces



Different tax rules can apply to military personnel that don't apply to civilians. The Internal Revenue Service has a publication that explains these rules, such as the combat zone exclusion, extension of time to file income tax returns and what to include in gross income. It also discusses the tax relief provisions for troops involved in or in support of the peacekeeping efforts in Bosnia and Herzegovina, Croatia and Macedonia.

For details, get IRS Publication 3, *Armed Forces' Tax Guide*. Write to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

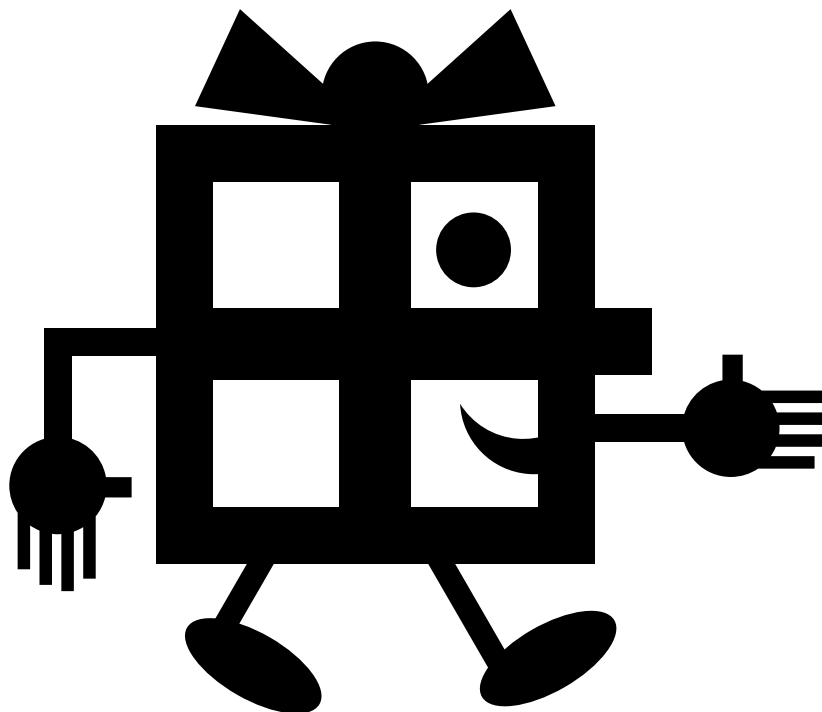
Gift and Estate Taxes

Here's the latest news on U.S. gift and estate taxes for U.S. citizens abroad and nonresident and resident aliens.

U.S. citizens who live abroad are still subject to U.S. estate and gift taxes, regardless of the location of their assets. Resident and nonresident aliens can also owe gift and estate tax to the United States.

Use Form 3520, "Annual Return to Report Transactions with Foreign Trusts and Receipt of Foreign Gifts," to report these gifts.

When a nonresident alien dies with over \$60,000 in U.S. assets, Form 706NA (nonresident alien), "U.S. Estate Tax Return," must be filed with the IRS. Also, when a U.S. citizen or resident dies with over



Gifts valued at \$10,000 or more to any one person in one year must be reported to the Internal Revenue Service. It may even be necessary to pay taxes on these gifts. This applies to gifts of any property by U.S. citizens or residents, and to gifts of U.S. real property or tangible personal property by nonresident aliens. While most gifts to a spouse are free of tax, if the spouse is not a U.S. citizen, that tax-free amount is limited to \$100,000 a year. Use Form 709, "United States Gift Tax Return," to report gifts.

Certain nontaxable gifts must be reported to the IRS. If a U.S. person receives a gift of foreign assets worth over \$10,000 from a foreign person, the gift must be reported. Failure to report the gift can result in penalties.

\$600,000 in worldwide assets, Form 706, "U.S. Estate Tax Return," must be filed.

The amount that can be transferred tax free by gift or death will increase in steps. The maximum value of estates exempt from tax, currently \$600,000, will rise in 1998 to \$625,000 and increase to \$1,000,000 by 2006. Beginning in 1999, the \$10,000 annual exclusion for gifts will be indexed each year to reflect inflation.

For information on gift and estate taxes, get IRS Publication 950, *Introduction to Estate and Gift Taxes*, the forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

IRS Spans the Globe

Located outside the United States? Here's where U.S. taxpayers can find help abroad from the Internal Revenue Service.

Bonn

United States Embassy/IRS
Deichmanns Aue 29
53179 Bonn
Federal Republic of Germany
Tel.#[49](228)339-2119
FAX#[49](228)339-2810

London

United States Embassy
24/31 Grosvenor Square
London, England W1A 1AE
Tel.#[44](171)408-8077
FAX#[44](171)495-4224

Mexico City

United States Embassy - IRS
Avenida de la Reforma 305
Col. Cuahatemoc, Rm. 116
06500 Mexico, D.F., Mexico
Tel.#[52](5)209-9100,
ext. 3557 or 3559
FAX#[52](5)208-2494

Ottawa office is closed.

Taxpayers residing in Canada may call (not toll free) the IRS Puerto Rico office for assistance.

- Questions of a technical nature or a specific account-related issue: (787)759-5100
- Those who received an IRS notice about their account that asked them to call the IRS: (787)759-6262

Paris

United States Embassy
2 Avenue Garibaldi
75382 Paris Cedex 08
France
Tel.#[33](1)4312-2555
FAX#[33](1)4312-4752

Rome

American Consulate/Rome
Via Veneto, 119/A
2nd Floor
Rome, Italy 00187
Tel.#[39](6)4674-2560
FAX#[39](6)4674-2223

Santiago

United States Embassy
Av. Andres Bello 2800
Las Condes
Santiago, Chile
Tel.#[56](2)330-3424
FAX#[56](2)330-3159

Singapore

American Embassy/IRS
27 Napier Road
Singapore 258508
Republic of Singapore
Tel.#[65]476-9413
FAX#[65]476-9030

Sydney

American Consulate General, IRS
Level 59, MLC Center
19-29 Martin Place
Sydney, NSW 2000
Australia
Tel.#[61](2)9373-9194
FAX#[61](2)9233-4445

Tokyo

United States Embassy—IRS
10-5 Akasaka, 1-chome
Minato-ku, Tokyo 107
Japan
Tel.#[81](3)3224-5466
FAX#[81](3)3224-5274

Washington, DC

Internal Revenue Service
950 L'Enfant Plaza, S.W.
CP:IN:D:CS
Washington, DC 20024 USA
Tel.#(202)874-1460
FAX#(202)874-5440

Tax Forms and Publications

Internal Revenue Service
Forms Distribution Center
P.O. Box 85627
Richmond, VA 23285-5627 USA

Internet

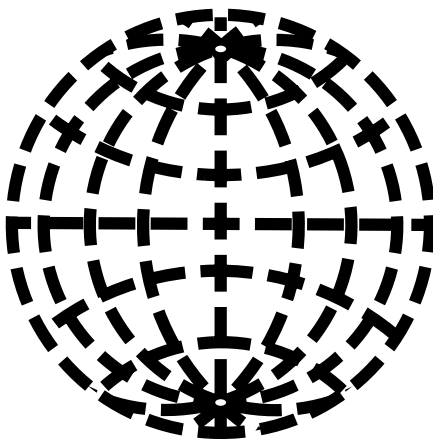
World Wide Web—
www.irs.ustreas.gov
FTP—[ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)
Telnet—[iris.irs.ustreas.gov](telnet://iris.irs.ustreas.gov)

Modem

(703)321-8020

TaxFax

Dial from the fax machine to get common tax forms and instructions.
Virginia—(703)368-9694
Bonn—[49](228)339-2822/2824
San Juan—(787)759-4524/4525
Tokyo—[81](3)3224-5465



Nonresident Aliens Taxed on U.S. Rental Property



Nonresident aliens must pay a 30-percent flat tax on their U.S. rental property income. They pay this tax in the year in which they receive the income.

There is, however, an exception that allows nonresident aliens to claim a deduction for rental expenses and be taxed at graduated rates. They can elect to treat rental income from real property as income effectively connected with a trade or business. Those electing to claim deductions on rental property must attach a statement to their tax return saying so.

Nonresident aliens must file their taxes using Form 1040NR, "U.S. Nonresident Alien Income Tax Return." They also must file Schedule E to reflect the income and expenses of their rental property, and Form 4562 to report allowable depreciation. File all forms and schedules by the due date.

More information is available in IRS Publication 519, *U.S. Tax Guide for Aliens*. Get this publication and any necessary tax forms and instructions by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Get a Foreign Tax Credit or Deduction

Paying income taxes to a foreign country or U.S. possession? Some people may qualify for either a tax credit or a deduction for those foreign tax payments when it comes time to pay their U.S. taxes.

The foreign tax credit is usually the best choice. According to the IRS, the foreign tax credit directly reduces a person's U.S. tax liability. When the foreign tax payment is taken as a deduction, taxable income is lessened by the amount of foreign income tax.

The IRS suggests taxpayers figure their taxes both ways to determine which works the best for them.

Taxpayers cannot take credits or deductions for foreign taxes paid on income that is excluded from U.S. taxation, such as the foreign earned income exclusion, the foreign housing exclusion, or the possession exclusion.

More details on these deductions are available in IRS Publication 514, *Foreign Tax Credit for Individuals*. Get it through the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.

Check IDs Before Traveling

To apply for a passport, travelers heading overseas must provide their Social Security number and related identification information to the U.S. State Department. This data can be used by the Internal Revenue Service to check the status of the traveler's tax records.

Check Tax Treaties Before Paying

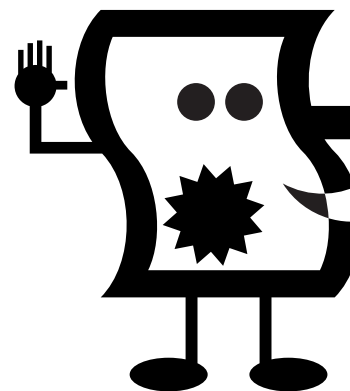
The United States has tax treaties that cover more than 50 countries. U.S. citizens and residents with income from any one of those countries may be entitled to various foreign tax benefits that prevent double taxation—paying tax on the same income to both the United States and the treaty country.

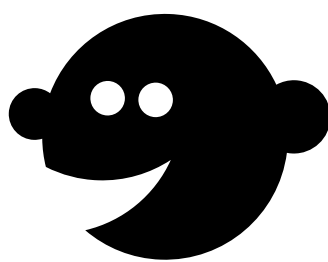
These treaties entitle people to certain credits, deductions, exemptions, and reductions in the tax rate of those foreign countries. They may also provide similar benefits for residents of foreign countries who owe U.S. taxes.

In 1997, new or updated treaties were negotiated between the United States and Austria, Ireland, Luxemburg, South Africa, Switzerland, Thailand, and Turkey; a protocol was negotiated with Canada. In Fall 1997, the Senate ratification process was underway for the treaties. Hong Kong is not covered under the tax treaty with China.

Questions on all tax treaties can be sent to IRS, Assistant Commissioner (International), Attention: CP:IN:D:CS, 950 L'Enfant Plaza South, S.W., Washington, DC 20024, USA.

For details on tax treaties and conventions, get IRS Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*, and Publication 901, *U.S. Tax Treaties*, by writing to the IRS Forms Distribution Center, P.O. Box 85627, Richmond, VA 23285-5627, USA.





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